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Report Highlights:

During 2003 the outbreak of SARS in China and detection of BSE in Canada negatively affected China's meat consumption and trade picture. However, demand for imported pork and beef is forecast to rebound to pre-SARS levels for the remainder of 2003 and into 2004. Rising incomes in China continue to favor growth in beef imports at the expense of domestic pork production and consumption. Import fraud problems prompted China to work with USDA to develop more effective certification and labeling procedures. During 2003 the Chinese Government announced a new strategic plan to bolster cattle production.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

Executive Summary	3
Beef and Cattle	4
In Response to sluggish growth in China's cattle and beef sector, Government Announces Nationwide "Beef Advantageous Development Area Program"	4
Rising Chinese consumer income leads to increase per capita meat consumption and demand for higher quality meat in 2004, but meat safety concerns on the rise.....	5
China's growing economy and production constraints keep upwards pressure on prices.....	5
During 2003 SARS outbreak and BSE in Canada shift live cattle and meat trade patterns, but imports forecast to recover in 2004 with U.S. products capturing the leading share. ...	5
Swine and Pork	15
Swine production forecast to be flat during 2003 and 2004 due to weak consumer demand for pork stemming from rising popularity of other meats.....	15
Pork consumption has fallen from 80% in 1980s of all meat consumed to a new low of 62.23% in the first five months of 2003	15
Prices for pork remain lackluster.	15
Fraud prevention efforts strengthening in China—USDA/FSIS certificates should improve sales opportunities for imported U.S. pork products.	15

Executive Summary

China's beef imports during 2004 are forecast at 30,000 MT, above this year's level as consumption is expected to remain strong due to a result of the "SARS rebound". A lower tariff in 2004 will benefit imports as domestic production lags demand especially high-end muscle meat and beef cuts. The outbreak of SARS in the spring depressed beef consumption in the second quarter, but consumption briskly recovered the remainder of 2003. SARS affected beef less than pork and poultry. One possible explanation is that cattle are believed to eat more natural feed and have less contact with the disease. Higher international beef prices may slow the pace of beef imports during 2004.

China's total cattle inventory increased slightly in the first quarter of 2003 over the same period of 2002. However, beef cattle inventories and beef production are both forecast to remain flat while dairy cattle production rises because dairy demand is even stronger than beef. Dairy products are considered one of the best food products to improve health, and the government has been paying greater attention to dairy development. This trend will continue into 2004 as the more prosperous dairy industry absorbs more investment. Strong beef consumption is driven by demand in the fast food, hot pot, and traditional stir-fry and newly developed Korean food sectors. Post adjusted dairy cattle inventory numbers based on official data of the National Statistics Bureau (NSB). Beef imports do not include offal in the PSD table.

During 2003 China's imports of pork are forecast down at 56,000 MT due to the effect of the SARS panic on consumption, but recover to 70,000 MT during 2004. However, import demand remains strong for pork offal and feet, a significant component of China's frozen pork imports. Pork production is increasing slowly but steadily as overall pork consumption is still growing. Pork consumption growth mainly comes from population growth, and pork consumption is more and more challenged by gaining popularity of other meats. China is generally self sufficient in pork production.

China's health officials are strengthening the country's regulatory environment, as consumer concerns about food health and safety rise, posing challenges for both domestic producers and key supplying countries such as Denmark, the United States and Australia. FAS/Beijing and the U.S. Meat Export Federation are working closely with China's regulators to ensure China's import requirements remain science-based and transparent.

Beef and Cattle

In Response to sluggish growth in China's cattle and beef sector, Government Announces Nationwide "Beef Advantageous Development Area Program"

China's total cattle inventory in the first quarter of 2003 was 124.8 million head, 1.4 percent up over the same period of 2002. The slight increase appears most likely due to dairy cattle numbers increasing rapidly and not due to draft animal numbers decreasing. Farmers were apparently compensated for lowering draft numbers. Another factor for the increase this year was because the Chinese Government resumed state meat reserves, but the reserve pattern was changed from frozen meat to mainly live animals. Although the reserve target was small (i.e., only about one percent of total beef production), the policy change may have encouraged farmers to increase their cattle inventories. Despite these efforts by the government, growth of the beef cattle industry is forecast to remain slow.

Several factors constrain the Chinese cattle and beef industry. First, genetic improvement lags far behind many other countries. Purely bred beef cattle herds are very small. Crossbred local draft breeds with western genetics only reach 30 percent. Investment in cattle genetic improvement mainly goes to the more profitable dairy sector; therefore breeding dairy cattle imports always dominate live cattle imports. Chinese cattle genetics result in much lower carcass weight than the world level on average after slaughter, thus actually making production costs higher.

Second, limited arable land in China constrains growth of the cattle industry. Due to China's burgeoning population and limited arable land, fertile land is increasingly being converted to cash crop production. This trend makes feed and fodder production more costly. The lack of natural grassland is another related concern, partially stemming from serious over-grazing on natural grassland. The grazing rate on natural grassland is 130-140 percent on average, and some places even as high as 300 percent. According to a new survey by the Government, overgrazing combined with small investment and natural disasters have made 90 percent of China's natural grassland deteriorated. To address the over-grazing problem, the Government recently announced a "Grassland Law" that will reduce the number of grazing animals.

Cattle farms are still predominately small-scale, and family households raise 70 to 80 percent of China's cattle. As a result, it is still very difficult to control major animal diseases. A comprehensive veterinary system is still lacking to efficiently cover all cattle. Finally, China's slaughter and processing sector remains under-developed. Most slaughter and processing plants cannot meet sanitary requirements domestically or internationally.

In response to these challenges, China's Ministry of Agriculture (MOA) recently initiated a National strategic "Beef Advantageous Development Area Program" for 2003-2007. The two areas are China's Central Plain and the Northeast, the traditional center of China's livestock industry. These areas will shift their marketing focus to higher quality beef production in order to gradually substitute imported beef and increase exports of high-end muscle beef in the future. However, it remains to be seen how long the program will take and whether Chinese beef can compete, quality and price-wise, with international high-end beef products. The other issue is the uncertainty of feed and fodder supplies. For the foreseeable future, China's beef industry will not threaten U.S. beef exports to China, but longer-term production improvements may cut into import growth.

Rising Chinese consumer income leads to increase per capita meat consumption and demand for higher quality meat in 2004, but meat safety concerns on the rise

Strong beef demand in the first quarter of 2003 was disrupted in the spring by the sudden outbreak of severe acute respiratory syndrome (SARS) in China. Consumption fell sharply in April and May, due to the panic of contracting the disease, as consumers avoided hotels and restaurants during this period. Fortunately, the SARS crisis was short-lived in China. With SARS under control by July 2003, WHO lifting the China travel ban and the government lifting domestic tourism travel, consumers have resumed dining outside the house. As a result, demand for beef has rebounded. During the third quarter of 2003 beef demand is forecast to recover to pre-SARS levels and remain stable through the rest of the year. Overall, the pace of growth in beef consumption during 2003 is forecast below pre-SARS forecast levels, yet the total quantity is still above the previous year.

The outlook for 2004 is steady increases in per capita and total beef consumption due to rising incomes, particularly in urban centers, and diversification away from traditional meats like pork. As the standard of living improves, consumers are demanding higher quality beef cuts. The constraints on China's domestic production and supply will result in continued increases in imports of higher quality beef during 2004.

Chinese consumers are also becoming more discriminating about food safety and health issues. In turn, China's health authorities have increased meat inspections and standards at stores. The traditional wet markets, where farmers directly sell their products, face increased pressure as they struggle to meet stiffer safety and inspection requirements. These conditions favor increased sales of frozen beef—including competitively priced imported products. Other consumption trends reported in FAS/Beijing's CH2044 GAIN report remain unchanged.

In response to the changing food safety regulatory environment in China, during 2003 the U.S. Meat Export Federation, with cooperation from FAS/Beijing, sponsored a series of seminars to strengthen China's understanding of the U.S. meat safety system and how the industry and government work cooperatively. Participants in China included officials from the Ministry of Health, AQSIQ and the meat trade. USDA's Cochran Program also plays a major role in fostering technical exchanges between China's quarantine officials and their counterparts in the United States.

China's growing economy and production constraints keep upwards pressure on prices

With meat consumption steadily growing coupled with production constraints, beef prices are expected to rise during 2003 and 2004. The Ministry of Agriculture reports that although China's beef prices on average in June 2003 rose only slightly against March, prices rose by 8 percent over the same period in 2002. Strong demand with a continued economy growth and production constraints will keep beef prices high for the rest of the year and during 2004.

During 2003 SARS outbreak and BSE in Canada shift live cattle and meat trade patterns, but imports forecast to recover in 2004 with U.S. products capturing the leading share.

In recent years, China's beef market is typified by growing levels of imported product filling the shortfall in domestic production as overall meat consumption rises. During 2003 the outbreak of SARS, and the resulting decline in restaurant consumption, is forecast to slow this pace of import growth. According to trade contacts, beef imports were interrupted during

the SARS period due to transportation problems and delays in issuing China's Import Quarantine Certificate. Fortunately, the SARS situation was short-lived. As a result, beef imports in 2003 are still forecast above last year's level. Strong demand for the rest of the year and into 2004, coupled with further import tariff reductions, are forecast to sustain beef imports at or above this year's level. Only much higher beef prices and an unpredicted food safety issue could dampen this forecast.

The detection of BSE in Canada has not directly affected U.S. beef exports to China, and China's imports of Canadian beef are insignificant. However, some traders report Canada's BSE situation could become a problem if China's quarantine authorities, AQSIQ, impose additional export certification requirements on how the U.S. has treated cattle imports from Canada and what measures the U.S. has taken to prevent BSE. In particular, according to trade contacts, China may impose additional import measures if other Asian countries take the lead. FAS/Beijing and the U.S. Meat Export Federation continue working with AQSIQ to strengthen their understanding of the science-based risk assessment, monitoring and testing being done on cattle in the United States to ensure the highest quality of exported U.S. meat products.

In part due to the detection of BSE in Canada, this year China and Australia signed a protocol allowing more types of Australian meat to enter China. Canada was China's second largest supplier of live cattle in 2002, and China promptly switched to other suppliers such as the United States and Australia. Trade contacts also report Australia's meat industry may focus trade promotion efforts on high-end chilled beef for supermarkets or restaurants. This business would not directly compete with the segment of the market utilizing U.S. exported frozen beef products. However, if prices of Australian beef products remain competitive and much of the imported beef is used in restaurants, Australia's efforts could hurt exports of U.S. high-end muscle meat to China.

During 2003 China's imports of dairy cattle are increasing sharply due to China's investment in the dairy sector and herd improvements. China's imports of breeding cattle were 11,432 head during 2002, more than quadrupling the previous year. Imports in the first two quarters of 2003 are already 58 percent higher than total imports from last year. Continued strong demand, constrained domestic supplies, and a zero tariff for breeding animals will result in continued increases in live cattle imports in 2003 and 2004. While Australian suppliers dominate China's import picture, U.S. suppliers are slightly gaining due to higher quality, according to traded sources. The BSE problem in Canada also provides an opportunity for the United States to increase exports.

This year China's imports of muscle meat have outpaced growth for offal. According to U.S. trade statistics (e.g., combination of exports to the mainland and Hong Kong with most re-exported to the mainland), muscle beef exports exceeded the volume of offal exports. The gradual transition from higher quality meat reflects China's growing economy, higher incomes and a more discriminating consumer. With domestic supplies unable to meet demand and further tariff reductions in 2004, this trend will further continue this year and the next.

The United States is the largest supplier for both beef meat and offal. However, the Chinese data inflate U.S. offal exports because large volumes of offal enter China represented as U.S. products to avoid quarantine restrictions placed on European and South American countries (please refer to FAS/Beijing's report, CH2044). Although traders can choose direct shipments or use Hong Kong middlemen (i.e., transportation companies) to import, direct shipments are gaining. Traders explain that middlemen provide a package price for delivery, and a large portion of the traders' profit is reduced by the so-called transportation cost. Further, according to traders, it is easier to obtain Import Quarantine Permits for direct shipments.

Despite China's admission to the WTO and phased-in reductions in import tariffs, the country still maintains 30 to 46% tariff rates (MFN + VAT) on selected meat cuts (see table in this report). These high tariffs increase the cost of imported meat products and raise food costs for consumers in China.

Turning to China's beef export picture, the country's exports are expected to decline in 2003 and beyond because demand in Hong Kong, the main export market, has been shrinking. EU countries appear likely to continue banning most Chinese meat products due to health concerns. Additionally, it is still uncertain how long the "SARS effect" will continue to impact other country's shaken confidence in Chinese products.

PSD Table

Country Commodity	China, Peoples Republic of					
	Animal Numbers, Cattle (1000 HEAD)					
Market Year Begin	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Total Cattle Beg. Stks	128242	128242	127504	130848	126616	133023
Dairy Cows Beg. Stocks	10255	5662	12000	6870	0	8300
Beef Cows Beg. Stocks	57000	58258	55000	57193	0	56000
Production (Calf Crop)	41805	47164	42550	48000	0	48860
Intra EC Imports	0	0	0	0	0	0
Other Imports	7	11	7	25	0	30
TOTAL Imports	7	11	7	25	0	30
TOTAL SUPPLY	170054	175417	170061	178873	126616	181913
Intra EC Exports	0	0	0	0	0	0
Other Exports	50	58	45	50	0	48
TOTAL Exports	50	58	45	50	0	48
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	42000	44011	43000	45000	0	45900
Total Slaughter	42000	44011	43000	45000	0	45900
Loss	500	500	400	800	0	800
Ending Inventories	127504	130848	126616	133023	0	135165
TOTAL DISTRIBUTION	170054	175417	170061	178873	0	181913
Calendar Yr. Imp. from U.S.	0	0	0	2	0	4
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table

Country Commodity	China, Peoples Republic of Meat, Beef and Veal					
	(1000 MT CWE)(1000 HEAD)					
Market Year Begin	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Slaughter (Reference)	42000	44011	43000	45000	0	45900
Beginning Stocks	0	0	0	0	0	0
Production	5600	5846	5700	6020	0	6260
Intra EC Imports	0	0	0	0	0	0
Other Imports	26	26	30	27	0	30
TOTAL Imports	26	26	30	27	0	30
TOTAL SUPPLY	5626	5872	5730	6047	0	6290
Intra EC Exports	0	0	0	0	0	0
Other Exports	40	45	40	40	0	38
TOTAL Exports	40	45	40	40	0	38
Human Dom. Consumption	5586	5827	5690	6007	0	6252
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	5586	5827	5690	6007	0	6252
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	5626	5872	5730	6047	0	6290
Calendar Yr. Imp. from U.S.	6	18	10	19	0	21
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

China's Live Cattle Imports by Origin (China Data)
(Number of Head)

ORIGIN	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	2002/03 Jan-Jun % Chng
Australia	2,231	9,280	2,760	15,572	464.20%
New Zealand	0	0	0	1,560	100.00%
United States	317	256	116	1,022	781.03%
Canada	227	1,896	0	11	100.00%
Other	0	0	0	0	0.00%
TOTAL	2,775	11,432	2,876	18,165	531.61%

Source: China Customs

HS Codes: 0102.1000 and 0102.9000

China's Fresh, Chilled and Frozen Beef Imports by Origin (China Data)
(Metric Tons, Product Weight)

SOURCE	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	2002/03 Jan-Jun % Change
United States	1,848	8,423	3,146	3,382	7.50%
Australia	1,802	2,139	951	1,281	34.70%
New Zealand	114	210	134	76	-43.28%
Others	4	246	48	456	850.00%
TOTAL	3,768	11,018	4,279	5,195	21.41%

Source: China Customs

HS Codes: 0201.1000, 0201.2000, 0201.3000, 2002.1000, 2002.2000, 2002.3000

China's Beef Offal Imports by Origin (China Data)
(Metric Tons, Product Weight)

SOURCE	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	2002/03 Jan-Jun % Change
United States	19,528	30,272	18,585	16,029	-13.75%
Canada	3,252	5,596	2,715	4,981	83.46%
Australia	5,672	1,678	441	921	108.84%
New Zealand	2,824	1,160	489	683	39.67%
Others	1,092	185	0	78	100.00%
TOTAL	32,368	38,891	22,230	22,692	2.08%

Source: China Customs

HS Codes: 0206.1000, 0206.2100, 0206.2200 and 0206.2900

China's Live Cattle Exports by Destination (China Data)
(Number of Head)

DESTINATION	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun	2003 Jan-Jun	2002/03 Jan-Jun % Change
Hong Kong	50,674	49,163	23,591	21,310	-9.67%
Macao	5,174	5,335	2,618	2,529	-3.40%
Korea, DPR	1,323	17	0	10	100.00%
Myanmar	0	674	85	0	-100.00%
Malaysia	0	3,091	1,033	0	-100.00%
Others	0	0	0	0	0.00%
TOTAL	57,171	58,280	27,327	23,849	-12.73%

Source: China Customs

HS Codes: 0102.1000 and 0102.9000

China's Fresh, Chilled and Frozen Beef Exports by Destination (China Data)
(Metric Tons, Product Weight)

DESTINATION	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	2002/03 Jan-Jun % Change
Hong Kong	11,062	8,129	4,007	3,008	-24.93%
Russia	658	1,426	787	195	-75.22%
U.A.E.	309	631	313	181	-42.17%
Korea, DPR	456	193	61	47	-22.95%
Egypt	6,176	697	299	14	-95.32%
Japan	0	0	0	5	100.00%
Macao	50	29	17	0	-100.00%
Palestine	390	0	0	0	0.00%
Israel	429	0	0	0	0.00%
Saudi Arabia	481	0	0	0	0.00%
Kuwait	767	509	211	0	-100.00%
Others	654	58	181	55	-69.61%
TOTAL	21,432	11,672	5,876	3,505	-40.35%

Source: China Customs

HS Codes: 0201.1000, 0201.2000, 0201.3000, 0202.1000, 0202.2000, 0202.3000

U.S. EXPORTS OF BEEF, BEEF OFFAL TO CHINA (U.S. Date)
(Metric Tons, Product Weight)

BEEF	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-May (Comparison)	2003 Jan-May (Comparison)	2002/03 Jan-May % Chng
China	3,483	5,856	2,291	1,196	-47.80%
Hong Kong	11,821	19,224	5,651	4,029	-28.70%
TOTAL	15,304	25,080	7,942	5,225	-34.21%

BEEF
OFFAL

China	3,351	4,583	1,650	2,516	52.48%
Hong Kong	8,518	5,490	2,392	2,922	22.16%
TOTAL	11,869	10,073	4,042	5,438	34.54%

Source: FAS, USDA

CHINA RETAIL BEEF PRICES (RMB/KG, US\$ 1=8.27)

Provinces	2002				2003				Change 02/03	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jun-Jun	
NAT'L AVG 1/	14.21	13.96	14.25	14.77	15.03	15.08			8.02%	
Beijing	13.04	12.80	14.04	15.44	15.78	15.48			20.94%	
Tianjin	14.00	12.67	13.67	14.67	14.75	14.00			10.50%	
Hebei	12.92	13.11	13.52	14.00	14.10	13.86			5.72%	
Shanxi	13.47	14.00	13.76	15.00	14.44	14.04			0.29%	
Inner Mongolia	14.25	13.63	13.90	16.00	14.50	15.17			11.30%	
Liaoning	14.31	14.84	15.59	16.00	16.05	15.05			1.42%	
Jilin	14.10	14.90	15.50	15.80	16.50	15.83			6.24%	
Heilongjiang	13.00	14.12	14.82	15.26	15.50	14.93			5.74%	
Shanghai	20.67	20.53	20.60	20.93	20.93	21.63			5.36%	
Jiangsu	13.48	13.19	13.38	14.75	14.50	13.77			4.40%	
Zhejiang	17.45	16.44	17.19	19.40	19.47	19.41			18.07%	
Anhui	14.02	13.06	13.29	16.14	14.05	13.82			5.82%	
Fujian	16.45	16.31	18.64	17.56	18.96	20.03			22.81%	
Jiangxi	13.83	13.75	14.36	15.74	15.57	14.61			6.25%	
Shandong	13.26	13.27	14.53	14.06	14.26	13.68			3.09%	
Henan	13.12	14.09	13.97	14.19	14.35	13.92			-1.21%	
Hubei	12.21	12.21	12.66	12.94	13.42	13.53			10.81%	
Hunan	14.11	12.39	14.37	14.50	14.71	14.61			17.92%	
Guangdong	17.63	17.31	17.38	17.59	18.25	18.88			9.07%	
Guangxi	12.38	12.29	12.84	13.47	13.82	13.98			13.75%	
Hainan	14.50	15.00	15.00	14.75	15.50	15.25			1.67%	
Sichuan	12.10	12.15	12.10	13.30	13.09	13.53			11.36%	
Guizhou	12.56	12.99	12.83	13.58	14.07	14.09			8.47%	
Yunan	14.64	14.59	14.62	14.38	14.92	15.14			3.77%	
Tibet	n/a	n/a	n/a	n/a	n/a	n/a			N/a	
Shaanxi	14.00	14.25	12.83	14.33	16.00	13.03			-8.56%	
Gansu	13.65	15.15	14.51	14.80	14.92	15.55			2.64%	
Qinghai	14.33	14.75	12.38	14.83	14.33	17.25			16.95%	
Ningxia	13.50	14.00	13.00	15.60	16.20	16.20			15.71%	
Xinjiang	16.30	16.21	n/a	16.00	15.95	16.82			3.76%	
Chongqing	13.03	13.57	13.86	14.60	15.19	14.99			10.46%	

Source: The Ministry of Agriculture (MOA)

1/ The national average prices are based on all the counties selected for sampling surveys.

Tariffs on Cattle and
Beef, Effective January
1, 2003

		General	MFN	V.A.T. 1/	Effective Rate (mfn+vat)
Cattle, Breeding	0102.1000	0%	0%	13%	13.0%
Cattle, Other	0102.9000	30%	10%	13%	24.3%
Beef, Fresh or chilled					
carcass & half-carcass	0201.1000	70%	29%	13%	45.8%
other cuts with bone s	0201.2000	70%	18.6%	13%	34.0%
Boneless	0201.3000	70%	18.6%	13%	34.0%
Beef, Frzn					
carcass & half-carcass	0202.1000	70%	29%	13%	45.8%
other cuts with bones	0202.2000	70%	18.6%	13%	34.0%
Boneless	0202.3000	70%	18.6%	13%	34.0%

Source: China Customs

Tariffs on Beef, Offal Effective January 1, 2003

		General	MFN	V.A.T.	Effective Rate (mfn+vat)
Beef Offal	0206.1000	70%	13.6%	13%	28.4%
	0206.2100				
	0206.2200				
	0206.2900				

Source: China Customs

Swine and Pork

Swine production forecast to be flat during 2003 and 2004 due to weak consumer demand for pork stemming from rising popularity of other meats.

China's swine industry faces stagnant demand from consumers due to gaining popularity of other meats. Official statistics showed a smaller pace of growth in both swine inventory and pork production in 2002 over the previous year. The past nine months, hog prices were at low levels. However, low feed prices have helped the swine industry gain some marginal profits. Given these realities, the Chinese Government appears moving to discourage expansion of the swine industry. As evidence, when the Ministry of Agriculture recently announced the national strategic "Advantageous Production Area Development Program", swine was not included like beef and dairy cattle.

Increasingly health conscious Chinese consumers, especially urban residents, prefer leaner pork. As a result, the swine industry has adjusted the swine production structure from expanding animal size to improving quality of the finished product. For example, the number of three-way crossbred, lean hogs has increased about five percent on the main production farms, but these efforts are not enough. Compared with western countries, the lean meat per hog in China is only 50 percent, on average.

Pork consumption has fallen from 80% in 1980s of all meat consumed to a new low of 62.23% in the first five months of 2003

In China pork consumption still commands the largest share of all meats consumed. According to NSB China's per capita consumption was 1.78 kilograms in the first five months in 2003, accounting for 62.23 percent of all meat. However, any growth in total volume consumed reflects the steady pace of population growth and not per capita consumption gains. Chinese consumers, especially women and the older generation in urban cities, consider pork too fatty compared with others meats, a factor which is not good for health. According to the industry, most pork consumption increases stem from residents of newly urbanized towns and farmers who do manual labor in cities. Wealthier Chinese consumers are looking for greater diversity in their meat consumption such as beef, mutton and poultry. This trend will continue in the next couple of years as a strong economy and rising incomes makes purchases of other meats more affordable.

Prices for pork remain lackluster.

According to data from the Ministry of Agriculture, pork prices on average for June 2003 were decreasing against the same month of the previous year. With consumption growing slowly due mainly to population increases and supply outstripping demand, prices will not rise to the high levels seen in the early 1990s. Prices will fluctuate as normal during the high consumption season.

Fraud prevention efforts strengthening in China—USDA/FSIS certificates should improve sales opportunities for imported U.S. pork products.

The past year USDA and China's AQSIQ officials made progress on several beef and pork trade issues. Both sides agreed to use a new FSIS export health certificate that utilizes a watermark to show authenticity. The other success was that China accepted the U.S. suggestion to use stick-on labeling marks on outer boxes instead of print-on labeling marks. This change will reduce export costs for U.S. traders. Both procedures were originally raised by China as a means to deal with fraud of products. There have been no reports of trade

disruptions since the new labeling became effective. However, significant issues such as China's zero tolerance levels for E. coli and Salmonella (please refer to FAS/Beijing's report, CH2009) remain pending.

Chinese statistics of pork and offal imports inflate U.S. pork and offal exports to China. Some mislabeled pork products (normally lower quality products repackaged in Hong Kong) imported as U.S. origin are even accompanied by a fake U.S. health certificate. Recently, AQSIQ officials who claimed they found a drug residue forbidden in China rejected a shipment of pork offal. However, according to the industry, the supposed drug was never applied nor was that product even exported to China.

In response to these food safety and fraud concerns, during August 2003 the U.S. Meat Export Federation held technical seminars with the Ministry of Health, AQSIQ officials, and the meat trade on a wide range of meat trade issues. A better understanding of the U.S. Government and meat industry cooperation on export health certificates will hopefully help reduce these kinds of problems.

China continues practicing strict entry requirements for European products after the EU shut off most Chinese livestock and aquatic exports due to drug residue concerns. The EU's export share to China for both meat and offal dropped considerably in 2002 and in the first quarter of 2003. Simultaneously, the U.S. exports are increasing and cutting into the EU share because of stricter entry requirements from the EU and better quality U.S. pork products, according to traders.

During the first two quarters of 2003, U.S. offal exports to China more than doubled over the same period of the previous year. This pork market should remain stable, and imports in 2004 should be at or above this year's level. Offal imports in 2002 were lower than expected mainly because the decreased EU share of exports to China was so fast that the increased US share could not compensate for it. Trade friction between the EU and China, coupled with competitive U.S. pork offal products, favors a shifting in the export share towards the United States.

Since Europe closed its market to most Chinese meat and aquatic products, China has shifted its strategy of focusing on pork exports to neighboring countries or areas. Pork access to Russia, though not smooth, has made good process. Russia is now China's biggest export market. As the export volume to Russia in the first two quarters of 2003 (China data in the table below) already increased 7.6 percent of the total volume last year and the volume to Hong Kong is also growing, 25.4 percent, due to demand increases. China's total exports in 2003 are estimated to rise above last year's level and continue increasing in 2004.

PSD Table

Country Commodity	China, Peoples Republic of					
	Animal Numbers, Swine (1000 HEAD)					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA	Post	USDA	Post	USDA	Post
	Official	Estimate	Official	Estimate	Official	Estimate
	[Old]	[New]	[Old]	[New]	[Old]	[New]
Market Year Begin		01/2002		01/2003		01/2004
TOTAL Beginning Stocks	457430	457430	464000	462917	470000	467902
Sow Beginning Stocks	37250	37250	37800	37800	0	38367
Production (Pig Crop)	574367	575212	585797	575300	0	580000
Intra EC Imports	0	0	0	0	0	0
Other Imports	3	3	3	1	0	1
TOTAL Imports	3	3	3	1	0	1
TOTAL SUPPLY	1031800	1032645	1049800	1038218	470000	1047903
Intra EC Exports	0	0	0	0	0	0
Other Exports	1800	1888	1800	1850	0	1800
TOTAL Exports	1800	1888	1800	1850	0	1800
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	565000	566840	577000	567466	0	574693
Total Slaughter	565000	566840	577000	567466	0	574693
Loss	1000	1000	1000	1000	0	1000
Ending Inventories	464000	462917	470000	467902	0	470410
TOTAL DISTRIBUTION	1031800	1032645	1049800	1038218	0	1047903
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table

Country Commodity	China, Peoples Republic of Meat, Swine					
	(1000 MT CWE)(1000 HEAD)					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA	Post	USDA	Post	USDA	Post
	Official	Estimate	Official	Estimate	Official	Estimate
	[Old]	[New]	[Old]	[New]	[Old]	[New]
Market Year Begin		01/2002		01/2003		01/2004
Slaughter (Reference)	565000	566840	577000	567466	0	574693
Beginning Stocks	0	0	0	0	0	0
Production	43000	43266	44100	44100	0	44938
Intra EC Imports	0	0	0	0	0	0
Other Imports	60	60	70	56	0	70
TOTAL Imports	60	60	70	56	0	70
TOTAL SUPPLY	43060	43326	44170	44156	0	45008
Intra EC Exports	0	0	0	0	0	0
Other Exports	225	225	200	300	0	300
TOTAL Exports	225	225	200	300	0	300
Human Dom. Consumption	42835	43101	43970	43856	0	44708
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	42835	43101	43970	43856	0	44708
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	43060	43326	44170	44156	0	45008
Calendar Yr. Imp. from U.S.	0	9	0	27	0	35
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

China's Fresh, Chilled and Frozen Pork Imports by Origin (China Data)
(Metric Tons, Product Weight)

Country	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	2002/03 Jan-Jun % Chng
United States	39,558	108,214	56,106	24,448	-56.43%
Canada	22,207	35,002	15,638	13,635	-12.81%
Denmark	17,731	1,444	101	12,507	12283.17%
Belgium	6,731	105	28	0	-100.00%
France	2,400	48	24	1	-95.83%
United Kingdom	95	25	25	2	-92.00%
Netherlands	3,527	8	8	3	-62.50%
Others	2,025	59	0	4	100.00%
TOTAL	94,274	144,905	71,930	50,600	-29.65%

Source: China Customs Statistics

HS Codes: 0203.1110, 0203.1190, 0203.1200, 0203.1900, 0203.2110, 0203.2190,
0203.2200 and 0203.2900

China's Pork Offal Imports by Origin (China Data)
(Metric Tons, Product Weight)

SOURCE	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	2002/03 Jan-Jun % Change
United States	39,944	47,435	13,937	48,470	247.78%
Canada	20,734	15,483	3,424	19,209	461.01%
Denmark	25,446	8,502	1,015	19,659	1836.85%
France	3,823	1,202	605	0	-100.00%
Belgium	7,447	944	202	0	-100.00%
Netherlands	8,949	935	753	0	-100.00%
United Kingdom	51	0	0	0	0.00%
Others	3,248	52	24	19	-20.83%
TOTAL	109,642	74,553	19,960	87,357	337.66%

Source: China Customs Statistics

HS Codes: 0206.3000, 0206.4100, 0206.4900

China's Fresh, Chilled and Frozen Pork Export by Destination (China Data)
(Metric Tons, Product Weight)

Destination	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-Jun (Comparison)	2003 Jan-Jun (Comparison)	2002/03 Jan-Jun % Change
Russia	26,481	75,587	35,452	38,142	7.59%
Hong Kong	51,067	60,654	27,668	34,404	24.35%
Korea, DPR	5,076	9,010	6,540	10,494	60.46%
Singapore	11,276	8,729	4,118	2,868	-30.35%
Macao	2,098	2,481	1,114	1,473	32.23%
South Korea	0	25	0	660	100.00%
Albania	1,486	1,832	792	408	-48.48%
Bulgaria	3,609	0	227	152	-33.04%
Philippines	64	1,449	685	10	-98.54%
Others	2,052	2,205	1,047	928	-11.37%
TOTAL	103,209	161,972	77,643	89,539	15.32%

Source: China Customs

HS Codes: 0203.1110, 0203.1190, 0203.1200, 0203.1900, 0203.2110, 0203.2190,
0203.2200 and 0203.2900

U.S. EXPORTS OF PORK AND PORK OFFAL TO CHINA
(January- December, Metric Tons, Product Weight)

PORK	2001 Jan-Dec	2002 Jan-Dec	2002 Jan-May (Comparison)	2003 Jan-May (Comparison)	2002/03 Jan-May % Chng
China	6,184	7,389	2,773	4,781	72.41%
Hong Kong	7,968	7,731	2,946	3,910	32.72%
TOTAL	14,152	15,120	5,719	8,691	51.97%

PORK OFFAL

China	7,779	5,460	2,239	1,071	-52.17%
Hong Kong	24,759	13,156	2,392	2,922	22.16%
TOTAL	32,538	18,616	4,631	3,993	-13.78%

Source: FAS, USDA

CHINA RETAIL HOG PRICES (RMB/KG, US\$1=8.27)

PROVINCE	2002				2003				Change 02/03 Jun-Jun
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	
AVERAGE 1/	5.99	5.70	5.85	6.08	5.83	5.75			0.95%
Beijing	6.10	6.36	6.28	6.84	6.08	6.16			-3.14%
Tianjin	5.70	5.93	6.07	6.37	6.03	5.94			0.17%
Hebei	5.10	5.36	5.55	5.82	5.54	5.44			1.49%
Shanxi	5.48	5.47	5.77	6.13	5.60	5.18			-5.30%
Inner Mongolia	7.04	5.84	6.44	6.32	6.65	5.54			-5.14%
Liaoning	5.28	5.30	5.77	5.79	5.35	5.60			5.66%
Jilin	5.21	5.34	5.95	6.10	5.82	5.84			9.36%
Heilongjiang	6.20	5.45	5.66	6.14	5.45	5.34			-2.02%
Shanghai	6.63	6.45	6.30	6.65	6.43	6.88			6.67%
Jiangsu	5.24	4.85	5.28	5.72	5.25	5.26			8.45%
Zhejiang	6.19	5.69	6.16	6.65	6.12	6.39			12.30%
Anhui	5.86	5.08	5.92	6.15	5.85	5.64			11.02%
Fujian	6.55	6.22	6.49	7.03	6.71	6.19			-0.48%
Jiangxi	6.09	5.42	5.92	6.28	6.19	6.23			14.94%
Shandong	5.26	5.27	5.56	5.80	5.38	5.73			8.73%
Henan	5.12	5.04	5.36	5.74	5.38	5.50			9.13%
Hubei	5.54	4.97	5.57	6.06	5.74	5.61			12.88%
Hunan	5.90	5.40	5.73	5.92	5.89	5.79			7.22%
Guangdong	6.89	6.68	6.67	6.99	7.18	7.11			6.44%
Guangxi	5.72	5.64	5.56	5.76	5.75	5.78			2.48%
Hainan	7.38	7.00	7.09	7.40	7.00	6.85			-2.14%
Sichuan	5.68	5.34	5.72	5.77	5.42	4.81			-9.93%
Guizhou	5.92	5.69	6.06	6.17	5.91	5.87			3.16%
Yunnan	5.61	5.57	5.84	5.90	5.54	5.41			-2.87%
Tibet	n/a	n/a	n/a	n/a	n/a	n/a			N/a
Shaanxi	6.00	5.45	5.80	5.73	5.60	5.00			-8.26%
Gansu	5.90	5.35	6.09	5.98	6.45	5.79			8.22%
Qinghai	7.90	7.75	6.85	7.23	7.05	6.07			-21.68%
Ningxia	5.40	5.60	6.00	5.72	5.12	5.68			1.43%
Xinjiang	7.22	6.40	n/a	6.76	6.46	6.46			0.94%
Chongqing	5.52	4.97	5.45	5.63	5.44	5.01			0.80%

Source: The Ministry of Agriculture (MOA)

1/ The national average prices are based on all the counties selected for sampling surveys.

CHINA RETAIL PORK PRICES (RMB/KG, US\$1=8.27)

Provinces	2002				2003				Change 02/03
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar-Mar
NAT'L AVG 1/	10.33	9.97	10.11	10.26	10.04	9.86			-1.06%
Beijing	9.72	10.33	9.16	9.06	9.10	9.30			-9.97%
Tianjin	11.85	10.33	10.67	11.00	10.75	10.63			2.90%
Hebei	9.04	9.11	9.96	9.95	9.71	9.81			7.68%
Shanxi	9.51	8.90	9.77	9.95	9.45	9.02			1.35%
Inner Mongolia	10.11	9.34	9.91	10.60	10.50	9.45			1.18%
Liaoning	9.55	9.62	9.87	10.14	9.51	9.69			0.73%
Jilin	10.04	9.30	10.15	10.30	9.78	9.53			2.47%
Heilongjiang	10.00	8.83	9.16	9.91	8.80	8.83			0.00%
Shanghai	12.50	13.00	12.45	12.63	12.05	12.43			-4.38%
Jiangsu	10.18	9.84	10.23	10.13	9.96	19.40			97.15%
Zhejiang	10.51	9.76	10.34	10.76	10.05	10.42			6.76%
Anhui	11.11	9.93	10.48	10.49	10.29	10.17			2.42%
Fujian	10.11	10.07	10.00	10.99	10.62	10.61			5.36%
Jiangxi	10.23	9.97	10.11	10.18	10.29	10.33			3.61%
Shandong	9.86	9.79	10.26	10.24	10.09	9.92			1.33%
Henan	9.32	9.02	9.57	9.66	9.48	9.34			3.55%
Hubei	11.19	10.41	10.74	10.77	10.66	10.67			2.50%
Hunan	10.26	9.53	10.15	9.88	9.89	10.08			5.77%
Guangdong	11.58	11.14	11.06	11.02	11.81	11.51			3.32%
Guangxi	10.78	9.81	10.56	10.33	10.75	10.56			7.65%
Hainan	9.50	9.50	10.75	9.75	9.00	9.25			-2.63%
Sichuan	10.29	9.61	9.96	10.04	9.81	9.31			-3.12%
Guizhou	9.68	9.38	10.12	10.18	9.74	9.56			1.92%
Yunan	9.74	9.66	9.94	9.96	9.86	9.35			-3.21%
Tibet	n/a	n/a	n/a	n/a	n/a	n/a			N/a
Shaanxi	9.95	9.00	10.53	9.07	9.00	8.00			-11.11%
Gansu	9.96	9.41	9.94	9.89	9.40	8.85			-5.95%
Qinghai	11.75	10.75	11.25	11.20	11.63	10.10			-6.05%
Ningxia	7.50	11.50	6.00	10.16	8.00	8.04			-30.09%
Xinjiang	13.60	12.21	n/a	12.36	11.25	10.36			-15.15%
Chongqing	10.33	9.91	10.31	10.41	9.70	9.56			-3.53%

Source: The Ministry of Agriculture (MOA)

1/ The national average prices are based on all the counties selected for sampling surveys.

CHINA RETAIL PIGLET PRICES (RMB/KG, US\$1=8.27)

PROVINCES	2002				2003				% Change 02/03
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	
AVERAGE 1/	8.95	8.04	7.73	7.69	7.96	7.76			-3.50%
Beijing	8.64	9.76	9.68	9.12	9.51	9.26			-5.12%
Tianjin	7.67	7.57	7.83	7.00	7.60	8.35			10.30%
Hebei	6.65	6.54	6.78	6.23	7.08	6.93			5.96%
Shanxi	10.04	9.50	8.91	9.13	9.21	10.04			5.68%
Inner Mongolia	14.87	11.72	12.31	11.40	17.75	13.53			15.44%
Liaoning	8.37	8.65	9.69	8.06	9.24	8.87			2.54%
Jilin	9.12	8.26	9.04	8.04	9.88	9.04			9.44%
Heilongjiang	7.60	8.80	9.36	9.07	9.09	8.42			-4.32%
Shanghai	8.35	8.03	7.63	8.28	8.50	9.20			14.57%
Jiangsu	6.25	4.63	5.14	5.46	5.15	4.96			7.13%
Zhejiang	6.71	6.13	6.33	6.38	6.51	7.14			16.48%
Anhui	7.34	5.29	6.03	8.01	6.65	6.43			21.55%
Fujian	8.41	6.44	8.39	8.49	7.31	7.95			23.45%
Jiangxi	7.39	6.08	6.82	6.68	7.32	8.06			32.57%
Shandong	5.85	5.35	5.65	5.49	5.43	5.84			9.16%
Henan	6.75	6.35	7.14	7.50	6.78	6.78			6.77%
Hubei	10.73	7.72	7.36	7.87	8.55	7.56			-2.07%
Hunan	8.27	7.32	7.78	7.02	7.79	7.52			2.73%
Guangdong	8.10	7.46	7.79	8.15	8.39	8.45			13.27%
Guangxi	5.96	5.62	6.18	5.72	5.95	6.71			19.40%
Hainan	8.60	8.93	9.05	8.78	6.73	8.70			-2.58%
Sichuan	7.81	7.34	7.44	7.27	7.08	6.06			-17.44%
Guizhou	7.64	7.11	7.43	7.45	7.61	6.80			-4.36%
Yunan	8.33	8.34	8.41	8.79	8.66	7.92			-5.04%
Tibet	n/a	n/a	n/a	n/a	n/a	n/a			n/a
Shaanxi	10.87	11.07	8.00	8.87	10.00	3.20			-71.09%
Gansu	13.08	11.59	10.65	10.39	10.98	10.56			-8.89%
Qinghai	14.75	12.25	10.77	9.80	12.20	11.08			-9.55%
Ningxia	13.50	10.00	15.00	8.00	8.12	8.50			-15.00%
Xinjiang	12.50	10.57	n/a	11.36	11.60	10.64			0.66%
Chongqing	8.34	6.83	7.27	7.71	7.54	5.39			-21.08%

Source: The Ministry of Agriculture (MOA)

1/ The national average prices are based on all the counties selected for sampling surveys.

Tariffs on Hogs and Pork, Effective
January 1, 2003

		General	MFN	V.A.T.	Effective Rate (mfn+vat)
Swine, Breeding	0103.1000	0%	0%	13%	13.0%
Swine, Other	0103.9110	50%	10%	13%	24.3%
	0103.9120				
	0103.9200				
Pork, Fresh or Chilled					
sucking pig	0203.1110	70%	20%	13%	35.6%
other	0203.1190				
hams, shoulders and cuts thereof, with bones	0203.1200				
other	0203.1900				
Pork, Frozen					
sucking pig	0203.2110	70%	13.6%	13%	28.4%
other	0203.2190				
hams, shoulders and cuts thereof, with bones	0203.2200				
	0203.2900				

Source: China Customs

Tariffs on Pork Offal Effective January 1, 2003

		General	MFN	V.A.T.	Effective Rate (mfn+vat)
Pork Offal	0206.300	70%	20.0%	13%	35.6%
	0				
	0206.410	70%	20.0%	13%	35.6%
	0				
	0206.490	70%	13.6%	13%	28.4%
	0				

Source: China Customs